

# Memorandum

To: Panel Members Date: September 26, 2001

From: Ron Tagami, Manager  
Peter DeMauro, General Counsel File: Frito-Lay 8130agr

Subject: One-Step Agreement for **Recot Inc., dba Frito-Lay, Inc.**  
www.fritolay.com

## CONTRACTOR:

- Training Project Profile: Retraining: companies w/out-of-state competition
- Legislative Priorities: Promotion of California's Manufacturing Workforce  
Moving to a high performance workplace
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
  - Company Wide: 100,000
  - In California: 4,000
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union  
representing workers to be Trained: N/A

## CONTRACT:

- Program Costs: \$415,272
- Substantial Contribution: \$0
- Total ETP Funding: \$415,272
- In-Kind Contribution: \$600,000
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Kern
- Duration of Agreement: 24 Months

**TRAINING PLAN:**

- Average Cost Trainee: New Hire: Retrainee: \$984
- Type(s) of Training: Continuous Improvement Skills
- Number to be retained: New Hire: Retrainee: 423
- Range of hours: 68 - 152
- Range of hourly wages: \$15.86 to \$42.00
- Prevalent hourly wage: \$15.86
- Weighted average hourly wage: \$19.00
- Health benefits used to meet ETP minimum wage: No

**SUBCONTRACTORS:**

None

**THIRD PARTY SERVICES:**

The California Manufacturing and Technology Association (CMTA) assisted in the development of this agreement at no cost to Frito-Lay, Inc.

**PRIOR PROJECTS:**

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
G50-0908	Bakersfield	2/1/95 – 1/31/97	\$672,376	\$291,236	43%*
ET7-0020	Rancho Cucamonga	9/6/96 – 9/5/98	\$202,472	\$8,840	4%**
ET8-0614	Visalia	12/1/97 – 8/31/99	\$125,760	\$97,256	77%
ET9-1018	Modesto	4/5/99 – 4/4/01	\$186,336	\$89,360	53%***

\*During 1995 and 1996 at the Bakersfield facility (G50-0908), Frito-Lay expanded its product line (primarily adding baked goods) and concurrently expanded the workforce to accommodate the expansion. Company officials state that they did not accurately anticipate the extent of increased production demands and other pressures that resulted from the expansion. As a result, the company's ability to provide all training covered under the Agreement was negatively impacted. Even so, the Contractor was able to provide training to 155 employees out of

a maximum of 322, for a success rate of 48.1 percent. In dollars earned, the success rate was 43.3 percent as charted above.

\*\*Through much of calendar year 1997, Frito-Lay in Rancho Cucamonga (ET7-0020) underwent a number of changes that were not foreseen at the time training was planned, including significant technological upgrades and site expansion. These events delayed some training modules and rendered other training modules unnecessary. Also, trainees in the sales group underwent a restructuring, which resulted in reduced trainee numbers and a delay of their training beyond the term. In addition, tracking and documentation of the planned training was poorly executed. As a result, the company failed to receive compensation for training that was completed. The Contractor invoiced *only* for ETP funds that had been earned totaling \$8,840 or 4.2 percent of the amount encumbered.

\*\*\*The Contractor's representative was unable to provide information about the Modesto project. The final monitoring report, dated 6/1/2001, indicates the company representative stated they worked with a sub-contractor who did not have sufficient knowledge of ETP Regulations and policies, therefore the training program was poorly planned.

### **ACTIVE PROJECTS:**

The following are current project statistics:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number Hired (Complete for new hires only)	Number retained for 90 days
ET01-0197	12/18/00 12/17/02	\$445,736	532	466*	0		0
ET01-0364	06/30/01 06/29/03	\$124,410	122	0**	0		0

\*88% of the total number of trainees to be retained have been enrolled, at this site in Rancho Cucamonga,.

\*\*The training for the La Mirada site started July 13, 2001. There are no enrollments to date.

### **NARRATIVE:**

This project was brought to the Panel's attention through the marketing efforts of the California Manufacturers Technology Association.

This is the eighth agreement for Frito-Lay, the second at the Bakersfield manufacturing facility. Founded in San Antonio, Texas in 1932 by C.E. Doolin, the Frito Company began manufacturing snack products at about the same time Herman Lay bought a branch of an Atlanta, Georgia Potato Chip Company. The Frito Company began selling Lay's potato chips in the Southwest, and the Lay Company had begun selling Fritos brand corn chips in the Southeast. In 1961, the Frito Company and H.W. Lay & Company merged as Frito-Lay.

In 1965, Frito-Lay, headquartered in Plano, Texas, merged with the Pepsi-Cola Company to form PepsiCo, Inc., headquartered in Purchase, New York, a corporation with approximately half a million employees worldwide. Today Frito-Lay, Inc. has 100,000 employees worldwide, 4,000 of which are spread throughout of California in different offices, plants, and distribution centers. Frito-Lay produces

and distributes a wide range of snack foods, including Lays Potato Chips, Doritos, Tostitos, Fritos, Sun Chips, Ruffles and Rold Gold Pretzels.

The Frito-Lay, Bakersfield site was originally constructed in 1986 and housed five production lines. Today it houses 10 production lines and employs 750 worker. The Bakersfield site occupies 640 acres, with the plant alone occupying 75 acres. The site also has a 10,000 square-foot logistics center, a 6 megawatt cogeneration plant (the site produces its own power) and a 500-acre alfalfa farm, which is used for water recycling.

The company seeks ETP funding to provide a training program to improve operating systems and performance. The proposed training is for courses in Continuous Improvement, which includes modules in Business Skills, Problem Solving Skills and Team Basics. This extensive program prepares employees to assume their responsibilities and then teaches them how their jobs fit into the manufacturing effort as a whole. Upon completion of training each worker will understand the entire manufacturing process and will have acquired the skills to better perform their job and increase the facilities' overall production

Training frontline workers in Continuous Improvement Skills will enable them to understand team-oriented productivity, set goals, and handle greater responsibility. Business Skills will teach employees to understand their customers needs, meet those needs and formulate business plans to address customer needs in the future. After courses in business planning and customer relations, Frito-Lay employees will become an integral part of the company's decision-making hierarchy – a structure that employs the “just-in-time” paradigm of production.

This training is intended to help Frito-Lay increase customer service and satisfaction, increase productivity and cut costs. Each employee will understand how to contribute to the company's team effort to create a high performance workplace.

The Contractor shall be responsible for all project administration

#### **Supplemental Nature of Training**

The Contractor states that Frito-Lay has been active in training its employees in past years. Although most training for new employees is accomplished through job shadowing or the “buddy” system, the company has provided more formal classroom training. This training includes: Safety training for frontline workers, Environmental Awareness for the entire workforce; and Performance-Based (Commercial Skills) training to a select number of employees deemed to have advancement potential. The five core business classes (Continuous Improvement) were given to the workforce in 1995-96. Since then the number of workers has doubled and the courses have been updated to correspond to current business practices.

Without ETP funding, Frito-Lay would only be able to provide a minimum number of courses with fewer hours. However with ETP's assistance Frito-Lay can provide a more comprehensive training program targeting a greater number of employees.

Over the next 2 years, with ETP's assistance, Frito-Lay wants to ensure that all workers are trained in all skills necessary to perform their individual job duties. ETP funding allows Frito-Lay to have instructors totally dedicated to the training program. Moreover, with ETP funding, Frito-Lay is committed to providing the five core business skills and performance-based training to *every* Frito-Lay employee.

#### **In-Kind Contribution**

The total estimated employer contribution is \$600,000 which consists of trainee wages.

**PROPOSED ACTION:**

Staff recommends that the Panel approve the One-step Agreement if funding is available and the project meets the Panel priorities. This recommendation is based on Frito-Lay's stated need to provide its employees with skills to enhance the company's ability to remain competitive and to grow, to ensure a continuing relationship with its customers, and to remain viable in the California economy

Training Data									(c) Payment Schedule				
1	2	3	4	5 (a) Cls/Lab Video- conf. Hours	6 CBT Hours	7 (b) SOST Hours	8 Cost Per Trainee	9 Total SOST Trainer Hrs.	10 Hrs. to Enroll/ Pay 1 Enroll	11 Pay 2 Compl	12 Pay 3 Hired	13 Pay 4 After 90 Days	14 (d) Wage After Reten- tion
Job #	Occupations	Type of Training	No. Retain										
1	Production/Warehouse Worker	Direct-Employer, Retrainees	368	68			\$884		8	\$ 221.00	\$ 442.00	\$ -	\$ 221.00
687		Continuous Improvement		68									\$15.86 - 27.76
2	Production/Warehouse Worker	Direct-Employer, Retrainees	25	152			\$1,976		8	\$ 494.00	\$ 988.00	\$ -	\$ 494.00
687		Continuous Improvement		152									\$15.86 - 27.76
3	Management	Direct-Employer, Retrainees	30	104			\$1,352		8	\$ 338.00	\$ 676.00	\$ -	\$ 338.00
687		Continuous Improvement		104									\$23.00 - 42.00

### Contract Totals

Program Cost		\$415,272	Total to be Retained	423
Substantial Contribution (___%)	(-)	\$0		
Multiple-Empl. Support (___%)	(+)	\$0		
TOTAL ETP Funding	(=)	\$415,272		

(a)Advanced Technology must be provided as class/lab.

(b)Figures for calculation purpose only.

(c)For Welfare to Work: Pay 2=50% Completion hrs. Pay 3=100% Completion hrs.

(d)Wages by occupation on Comment Page.

Turnover Rate	% of Mgrs. & Sups. to be trained		Health Benefits Inc. in Wage?		
7.0%	N/A		No		

Location of training: All training will be provided on company premises in Bakersfield CA during work hours.

Ratios: The ratio of trainers to trainees for class/lab training shall not exceed 1:20 for retrainees.

If Health Benefits is "YES", please explain:

Other notes:

(d) Wages by occupation after retention:

<u>Occupations</u>	<u>Wage Range</u>
Production/Warehouse Worker	\$15.86 - 27.76
Management	\$23.00 - 42.00